

As the subdocket progressed and input was received from various interested parties, the scope of the inquiry and the issues to be addressed expanded.

After the subdocket was established the Commission invited all parties with a potential interest in these matters to attend a prehearing conference at the Commission to define the issues and establish a procedure for resolving them. Based on Order No. U-17949-A, the views expressed by the parties, and a review of dockets at the Commission regarding telecommunications matters, a list of potential issues was established.

Most parties agreed that the two issues with the greatest importance related to intra-LATA competition and the appropriate level and structure of intrastate access charges. Additionally, the determinations regarding intra-LATA competition would impact numerous other issues. Therefore, the Commission decided to phase the generic subdocket and address the issues of intra-LATA competition and the appropriate level and structure of access charges in the first phase. The second phase of the proceeding will primarily be concerned with Alternate Operator Services ("AOS" or Operator Service Providers "OSPs"). Most of the parties to the proceeding agreed with this approach.

The following entities were parties or intervenors in Phase I of the generic subdocket and participated in the proceedings. South Central Bell Telephone Company ("South Central Bell" or "the Company"), the Department of Defense and All Federal Executive Agencies ("Department of Defense"), AT&T Com-

munications of the South Central States, Inc. ("AT&T"), MCI Telecommunications Corporation ("MCI"), the Louisiana Payphone Association, Inc. ("LPA"), US Sprint ("Sprint"), the Small Company Committee of the Louisiana Telephone Association ("Independent LECs"), LDDS of Louisiana, Inc. ("LDDS"), Telemarketing Corporation of Louisiana, Cable and Wireless Communications, ("Cable and Wireless") Advanced Telecommunications Corporation ("ATC") and Intellicall, Inc. ("Intellicall").

After the procedural schedule was established, pre-filed testimony was submitted by virtually all parties to the proceeding, including the Commission's expert consultant. Extensive discovery was undertaken, which included exchanges of information and documents. Witnesses for all parties were made available for deposition and most were deposed. The parties also had the opportunity to file rebuttal testimony. Hearings were held on December 10-11, 1990, May 7-10, 1991, July 8-12, 1991 and July 22-24, 1991.

II. DISCUSSION

First, we will address whether the Commission should permit intra-LATA competition and, if so, the appropriate scope of that competition.

A. Current Status of Intra-LATA Competition

When this subdocket was initiated a certain degree of competition existed within the LATA. Although the provision of local exchange service is virtually free from competition,¹

¹ No party is seeking general authority to compete with the
(footnote continued)

limited intra-LATA competition was authorized in certain areas. Resellers -- companies that do not own their own facilities but rather lease them from the LECs or facilities-based interexchange carriers -- are authorized to carry intra-LATA toll traffic. Louisiana also has over 20 independent local exchange companies. As a result, there are a number of LATAs in the State that have more than one local exchange company. In August, 1986, in the Consolidated Order for Docket Nos. U-15457, U-15955, U-15995 and U-16012, the Commission determined that intra-LATA toll competition was in the public interest for LECs located within the same LATA.

Additionally, since divestiture the facilities-based interexchange carriers operating in Louisiana have introduced a variety of new service offerings in the interstate inter-LATA market and have sought authority to offer those same services on an intrastate inter-LATA basis. Since intrastate inter-LATA competition has been permitted in Louisiana since 1984, the implementation of the new offerings presented no significant problem to the Commission, the IXCs or the LECs. However, once the new services were implemented, the IXCs also had the capability of completing intra-LATA calls, and existing technology did not permit LECs to block the intra-LATA calls

(footnote continued from previous page)

LECs for local exchange service. However, customer owned coin operated telephones ("COCOTs") do complete local calls over the facilities of South Central Bell and the independent LECs. In addition, a very minor amount of "local" traffic is carried by some interexchange carriers and resellers incidental to other authorized service offerings of those carriers.

while permitting inter-LATA traffic. Therefore, each time the IXCs sought to introduce these new inter-LATA services, they applied for authority to carry the "incidental" intra-LATA traffic. In several dockets the Commission granted the IXCs the authority to implement these services and to carry the incidental intra-LATA traffic. This authority was granted on an interim basis.

South Central Bell generally opposed the applications of the IXCs, contending that authorization to carry intra-LATA traffic would erode revenues traditionally provided by intra-LATA toll to subsidize local service. In response, the Commission instructed the IXCs to track the completion of intra-LATA calls to determine whether significant erosion was occurring and to allow them to request that the IXCs provide compensation for that lost contribution. Periodic reports are made on the level of intra-LATA calls and, to date, no LEC has requested that it be compensated for this alleged lost intra-LATA toll contribution.

B. Commission Authority to Permit Intra-LATA Competition

No serious argument has been raised regarding the Commission's authority to permit expanded intra-LATA competition. The Modified Final Judgment, which formed the basis of the divestiture of the Bell Operating Companies ("BOCs") from AT&T, prohibited the BOCs from participating in the inter-LATA market but placed no such restrictions on the operation of IXCs in the inter-LATA intrastate or intra-LATA markets. As previously dis-

cussed, the Commission has permitted the IXCs to offer their services on an inter-LATA intrastate basis since divestiture.

The Commission has proceeded cautiously in permitting intra-LATA competition. However, the divestiture court made it plain that the state regulatory authorities would determine the degree of intra-LATA competition which would be permitted. The Modified Final Judgment specifically held that state regulators had the "authority to decide what intrastate calling arrangements are best suited to the public interest within their states." U.S. v. Western Electric Co., Inc., 569 F. Supp. 1057, 1109 (D.D.C. 1983). Finally, according to the testimony of South Central Bell's own witnesses, at least some degree of intra-LATA competition exists in more than half of the states. (Prefiled Direct Test. L. Perl, Exh. 2). Thus, this Commission has authority to permit expanded intra-LATA competition.

C. The Commission's Options

The Commission is faced with a variety of alternatives regarding intra-LATA competition. Some of these options may require adjustments to other rate elements for the LECs and the IXCs while others will not. A brief description of the alternatives is set forth below:

- a) Completely reserve the provision of intra-LATA services to the local exchange companies. This would entail rescinding the authority already held by resellers and the IXCs to complete some intra-LATA calls.
- b) Maintain the status quo. This alternative would leave reseller and limited IXC competition in place but permit no expansion of that authority.

- c) Maintain the status quo but make the limited authority granted to the IXCs permanent. This alternative would basically leave the existing competitive arrangements in place, but remove the temporary or interim status for those basically inter-LATA IXC offerings which include the capability of completing incidental intra-LATA calls.
- d) Permit only "retail" intra-LATA competition. This scenario would permit interexchange carriers to compete within the LATA but only utilize the transmission facilities owned by the local exchange companies. Both construction and use of IXC facilities for intra-LATA purposes would be prohibited.
- e) Permit the IXCs to engage in intra-LATA toll competition but only on a "10XXX" basis. Under this alternative the LECs would retain the exclusive right to complete all "1+" and "0+" calls. The IXCs would be granted the same authority currently enjoyed by the resellers; i.e., a customer choosing to use an IXC, rather than a LEC or reseller to complete his intra-LATA toll call would "access" his IXC of choice through a "10XXX", "1-800", "1-950" or similar access code. Any calls dialed "1+" or "0+" would continue to be carried by the LEC.
- f) Open the LATA to full "1+" "0+" competition. Under this arrangement subscribers would have the opportunity to have the carrier of their choice carry their intra-LATA toll traffic by dialing "1+" or "0+". The choice of intra-LATA toll carrier would be presubscribed. This result could be accomplished either with or without "balloting" of customers.

D. Positions of the Parties

1. South Central Bell - South Central Bell is the dominant local exchange carrier in this State. Although there are over 20 independent LECs operating in Louisiana, South Central Bell carries well over 90 per cent of the local and other intra-LATA traffic.

South Central Bell basically supports the introduction of competition within the LATA. Mr. John Ebbert, one of the company's witnesses testified:

South Central Bell entered this docket some months ago supporting a movement to a competitive environment. We presented proposals that we think would affect that movement in a fashion such that consumers get the benefit of any benefits that may come out of competition, at the same time, preserves and protects South Central Bell general ratepayers on a local basis. We feel there are potential benefits of competition. However, those potential benefits need to be provided on an equal and fair basis.

(Test. J. Ebbert, Tr.
7/23/91 at 9).

Similarly, South Central Bell witness Dr. Lewis Perl testified that the introduction of intra-LATA competition probably would produce benefits to Louisiana ratepayers. (Test. L. Perl, Tr. 12/10/90 at 204-05). In its brief, South Central Bell stated:

SCB supports a competitive environment in which all competitors are allowed to participate on an equal basis.

(Br. of South Central Bell
at 1).

Although South Central Bell supports the introduction of increased competition within the LATA, it believes that there are certain actions which must be taken by the Commission prior to authorizing additional competition. Based largely on a survey of approximately 1200 of its Louisiana customers, South Central Bell estimated that it would suffer an enormous erosion in earnings and contribution if facilities-based (i.e., IXC) intra-LATA competition were permitted. The company estimates that if

"10XXX" competition were permitted it would suffer an immediate net revenue loss of \$25.1 million. (Prefiled Test. M. Thompson, Exh. 7 Updated) This estimate is based on its conclusion that such competition would result in a loss of 55 per cent of its residence toll market and 44 per cent of its business toll market. (Prefiled Test. M. Thompson, at 9) If "1+"/"0+" competition were permitted, South Central Bell estimates that it would lose 82 per cent of its residence toll market and 89 per cent of its business toll market with a concomitant loss of over \$43 million in revenues.

Because of these projections, the company has urged the Commission to authorize other changes prior to implementing --- intra-LATA competition. In its Brief, South Central Bell describes the requested relief as follows:

If competition in the intra-LATA market is to be effective, several fundamental changes in the current marketplace must be initiated. These fundamental changes include: (1) Rates for LEC switched access and toll services must be reduced to market levels; (2) Local rates will be forced toward levels that more nearly reflect their costs; (3) The 7-digit local calling area should be expanded; and (4) Pricing flexibility for competitive services must be granted to the LECs.

(Br. of South Central Bell at 1-2).

Specifically, South Central Bell wants to have intra-state access charges reduced to the interstate level; its own intra-LATA toll rates reduced to a level 15 per cent below that of the lowest priced facilities based carrier; local rates increased to make up for the lost revenue which will result from

lowering the intra-LATA toll rates;² the local 7 digit calling area expanded to 40 miles, prohibiting any competition within that 40 mile area (i.e., mandatory 40 mile local calling area); pricing flexibility for competitive services. South Central Bell's position is that a fair competitive environment will exist only if all of these changes are accomplished prior to implementation of intra-LATA competition.

2. Independent Local Exchange Companies

The non-Bell local exchange companies (with the exception of Kaplan Telephone Co. which was not a party to this subdocket) are represented by the Small Company Committee of the Louisiana Telephone Association. In this proceeding the independent LECs focused on their request to eliminate the disparity in access charges in Louisiana (see discussion below). The independent LECs testified that they were not opposed to intra-LATA competition. However, they cautioned the Commission to handle the transition carefully because contribution is included in intra-LATA toll rates. In addition, the independent LECs were in favor of retaining "1+/"0+" dialing for the local exchange companies.

3. AT&T

AT&T is a facilities-based interexchange carrier currently authorized to provide inter-LATA service as well as limited intra-LATA service offerings such as Megacom and Readyline. AT&T's position is that Louisiana consumers currently

2 These three proposals are collectively referred to as "Rate Rebalancing."

benefit from some intra-LATA competition, including the limited intra-LATA service offerings of the facilities-based interexchange carriers and the more extensive intra-LATA offerings of other long distance companies. (Pre-filed Dir. Test. of W. Ellison at 2-3.) AT&T requests that the Commission authorize intra-LATA competition for all services other than "1+" and "0+" presubscribed MTS service. (Br. of AT&T at 1.) AT&T states that by increasing competition in accordance with AT&T's request "the Commission will increase consumer choice, encourage lower prices and improved customer service, stimulate the development of new services, and facilitate the rapid deployment of new services within the market place." (Pre-filed Dir. Test. of W. Ellison at 6; Tr. 12/10/90 at 52-53). AT&T also states that while the quality of telecommunications services will be improved by increased competition, adoption of AT&T's request will not significantly increase competition for the LECs' present services or cause SCB to lose significant market share or loop contribution. (Pre-filed Reb. Test. of W. Ellison at 2).

AT&T asks the Commission not only to grant permanent approval for the services it currently offers within the LATA, but to approve all potential service offerings which the long distance carriers may seek to provide in the intra-LATA market in the future. Thus, AT&T's request seeks authority for services that do not currently exist today. (Tr. 7/10/91 cross-ex. of Mr. Ballard at 146-147.) The request encompasses "10XXX" access authority for the long distance carriers. (Pre-filed Dir. Test.

of W. Ellison at 7.) AT&T is not asking for "1+", "0+" pre-subscribed MTS authority in this proceeding, but would not be opposed to the grant of such authority. (Pre-filed Dir. Test. of W. Ellison at 7.)

AT&T asserts that Louisiana intrastate access charges should be reduced to interstate levels and that South Central Bell's interstate access structure should be mirrored for intrastate rates. (Tr. 12/10/90 at p.61.) Additionally, AT&T believes that current disparities in access charges among the LECs should be eliminated. (Br. of AT&T at 20.) AT&T is in favor of the adoption of the Small Company Committee's original proposal to eliminate the disparity in access charges. It would support the amended Small Company Committee proposal that would reduce access charge disparities, but urges that the amended proposal, if adopted, be implemented immediately. (Br. of AT&T at 20-21.) AT&T also supports a cap on the CCLC to eliminate what it believes is unnecessary growth in access subsidies. (Br. of AT&T at 21.) Finally, AT&T requests that South Central Bell's intra-LATA toll rates include imputation of access charges. (Tr. 12/10/90 at p.60.)

4. US Sprint Communications Company

US Sprint Communications Company ("Sprint") is a facilities-based interexchange carrier. It offers inter-LATA toll service in Louisiana. Like AT&T, Sprint also has authority to provide several services within the intra-LATA market, but does not have authority to fully compete on an intra-LATA basis.

Sprint's position in this proceeding is that increased intra-LATA competition will be beneficial to Louisiana telecommunications consumers. (Pre-filed Dir. Test of B. Albery, p.2., Br. of Sprint at 2-3). Sprint believes that:

Louisiana consumers would realize three principal benefits from increased intra-LATA competition; reductions in toll prices; increases in product choice and variety; and increased innovation and the introduction of new products technology into the market.

(Br. of Sprint at 2; Pre-filed Dir. Test. of B. Albery at 6). Furthermore, Sprint asserts that acceptance of its proposal will leave the LECs' revenues relatively unaffected and that intra-LATA competition will have no adverse impact on local service rates. (Br. of Sprint at 2; Pre-filed Dir. Test. B. Albery at 11, 15-16).

Sprint proposes that its customers be allowed to make intra-LATA calls using either Sprint's access-based services or by use of the "10XXX" prefix. At this time, Sprint is not requesting that the Commission authorize Sprint to carry "1+" or "0+" intra-LATA toll traffic. (Br. of Sprint at 1). Like AT&T, Sprint is requesting that the Commission grant it authority to provide all services within the LATA (with the exception of basic exchange service), whether or not the services exist today. (Tr. 7/11/91, Cross-ex. of B. Albery at 148.)

Without taking a position regarding a recommended level of access charges, Sprint asserted that a substantial portion of any South Central Bell rate reductions should reduce access charges to move access charges to parity with interstate access

rates. (Tr., 12/10/90 at 77; Pre-filed Dir. Test. of B. Albery at 16). Sprint asserts that there is a continuing disparity between intrastate access and residential local service, with intrastate access growing faster than residential local service, and favors imposition of a plan which would automatically adjust South Central Bell's access charges to avoid over-recovery of subsidy revenues. (Pre-filed Dir. Test. of B. Albery at 17-18). Sprint recommends rejection of the Small Company Committee's alternative compromise proposal. (Br. of Sprint at 14-17).

Sprint is in favor of imputation of access charges in the LECs toll rates and takes the position that price competition may not be possible without imputation. (Pre-filed Reb. Test. of B. Albery p. 15-16). Sprint recommends that LEC toll services rates be set at a level which recovers the LECs' cost of providing toll services in addition to the access rates that the IXC's pay to provide their toll service. (Pre-filed Reb. Test. B. Albery p. 17).

5. MCI Telecommunications Corporation

MCI is a facilities based interexchange carrier. Like AT&T and Sprint, MCI provides inter-LATA service, but has only limited authority to complete long distance calls within the intra-LATA market.

MCI is in favor of expanding the competition that currently exists in the intra-LATA toll market. (Tr. 12/10/90 at 64). MCI's position is that:

Competition in the intra-LATA market will bring benefits, including improved and expanded service offerings, incentives for firms to serve additional

markets, and incentives for firms to become more efficient and more innovative.

(Brief of MCI at 1.)

MCI also states that Louisiana consumers will not be harmed by increased competition and that competitive entry into the intra-LATA market would cause minimal or no financial impact to the LECs. (Br. of MCI at 4; (Pre-filed Test. of D. Wood pp. 10-19.)

According to MCI, "1+" and "0+" presubscribed MTS implementation is required for the benefits of competition to accrue to all Louisiana consumers. (Tr. 12/10/90 at 64.) MCI requests that the Commission authorize intra-LATA entry for all interexchange carrier services that are technically feasible, with this authority effective immediately. MCI requests that the Commission then initiate a six month investigation into the technical issues of adopting equal access. MCI advocates adoption of a plan which would prevent financial harm to the independent local exchange companies. MCI also advocates implementing a monitoring plan through which South Central Bell would provide the Commission with actual and verifiable data regarding any loss in contribution attributable to intra-LATA competition. (Pre-filed Dir. Test. D. Wood pp. 18-19.)

MCI also takes the position that safeguards be put in place to ensure that intra-LATA entry can develop into viable competition. Thus, it recommends that the Commission require the LECs to impute access in a way that ensures that the rate they charge competitors for access service is acknowledged as a cost

when developing their own toll rates. (Dir. Test. of D. Wood p. 19; Br. of MCI at 4.)

Finally, MCI recommends that the Small Company Committee alternative proposal be adopted, with the modification that the differences in access rates be allocated to all IXC's based on originating and terminating minutes of use, instead of only on terminating minutes of use as proposed by the Small Company Committee. MCI states that this modification creates an allocation of costs that more accurately reflects each IXC's actual use of the local exchange network. (Br. of MCI at 4.)

6. LDDS Of Louisiana, Inc. ("LDDS")

LDDS is a reseller of long distance telecommunication services throughout Louisiana. Currently, resellers have authority to resell long distance services within the intra-LATA market.

LDDS is in favor of resale competition within the intra-LATA market and states that consumers have already received competitive benefits in the intra-LATA toll market as a result of that competition. Additionally, LDDS states that the local ratepayer has not been harmed by intra-LATA toll competition at the retail level. According to LDDS, the existing environment, "in which only resellers and LECs provide intra-LATA services, results in: (1) competitive benefits to the public and (2) no financial harm to SCB or local ratepayers." (Br. of LDDS at 2; Pre-filed Dir. Test. of B. Johnson at 3-5).

While asserting that the intra-LATA market has gained substantial benefits from allowing resale competition, LDDS urges the Commission to proceed cautiously in allowing any further intra-LATA competition. LDDS states that opening the intra-LATA market to facilities based competition might result in inefficient duplication of transmission facilities which could lead to under-utilization or abandonment of existing LEC facilities. LDDS also states that local ratepayers might be harmed if these costs are eventually passed on to them. (Pre-filed Dir. Test. B. Johnson at 6.)

LDDS further asserts that the risks associated with allowing full fledged facilities based intra-LATA competition will not materialize if intra-LATA competition is limited to the retail end of the market. (Pre-filed Dir. Test. of B. Johnson p. 8). If further competition is allowed, LDDS requests that the Commission create a level playing field for all competitors by reducing the distance sensitivity of the local transport rate element. (Br. of LDDS at 6-9). LDDS is also in favor of requiring the Local Exchange Companies to impute access charges. LDDS asserts that imputation is necessary and appropriate if the Commission is to encourage fair and effective competition within the intra-LATA market. (Pre-filed Dir. Test. of B. Johnson p.10).

7. Advanced Telecommunications Corporation
("ATC") and Cable & Wireless
Communications ("Cable and Wireless")

ATC and Cable & Wireless are both resellers operating in Louisiana. In this Docket, ATC and Cable & Wireless filed joint testimony, and also jointly filed a post-hearing brief. Currently, ATC and Cable & Wireless are authorized to compete with South Central Bell in the intra-LATA toll market.

ATC and Cable & Wireless support a policy framework entitled "Consumer Sovereignty" which would allow the consumer to designate its choice of carrier. Consumer Sovereignty would entail wide open intra-LATA competition, with each interexchange carrier having "1+" and "0+" authority. (Pre-filed Dir. Test. of J. Gillan at 4; Br. of ATC and Cable and Wireless at 3-7). Additionally, ATC and Cable & Wireless are in favor of requiring the imputation of the tariffed cost of access in the rates of the Local Exchange Companies. (Pre-filed Dir. Test. J. Gillan pp. 8-13).

8. Louisiana Payphone Association

The Louisiana Payphone Association is an organization composed of a majority of the operators of customer-owned coin operated telephones ("COCOTs") in the State. In Order No. U-16462-E the Commission decided a number of issues raised by the COCOTs in separate proceedings pending before the Commission. The Commission determined that although the COCOTs had been completing intra-LATA toll calls, they had never been authorized to do so. The Commission decided to reserve the "0+" intra-LATA

toll traffic to the local exchange companies and to deny the COCOTs any compensation for this "loss of the LATA."

The COCOTs seek to have the Commission approve expanded intra-LATA competition. To the extent that the LATA is opened up to further competition the COCOTs are seeking authority to complete intra-LATA "0" calls.

9. Intellicall, Inc.

Intellicall is a manufacturer of COCOT instruments. It provides (via lease or sale) the vast number of COCOT instruments used by Louisiana's largest COCOT provider, Coin Call, Inc. In addition, a subsidiary of Intellical provides alternate operator services. Intellical's principal interest in this Docket is to have the Commission approve expanded intra-LATA competition and to obtain Commission authorization for the COCOTs to complete "0" intra-LATA calls.

10. The Secretary of Defense, through the United States Department of Defense and All Federal Executive Agencies ("Department of Defense")

The Department of Defense also participated in these proceedings, and is in favor of expanding the intra-LATA market to allow intra-LATA facilities-based toll competition. The Department of Defense does not request that the interexchange carriers be granted authority to handle 1+ dialed MTS and 0+ dialed intra-LATA services. (Br. of Dept. of Defense at 1.) The Department of Defense states that:

the record in this subdocket supports the conclusion that a policy of intra-LATA facilities-based toll competition would be viable and in the public interest. Generally, DOD/FEA agrees with most parties that effective competition could exist in

the intra-LATA market and that such competition would not materially impact either universal service or the financial viability of South Central Bell.

Br. of Dept. of Defense at
1.

The Department of Defense cited numerous benefits that would occur if facilities based intra-LATA competition were allowed, including price reductions, increases in product choices and variety, and more innovation. Br. of Dept. of Defense at 3.

Regarding implementation of increased competition, the Department of Defense would be in favor of a plan which would guard against the Local Exchange Carrier using dominant market power to disadvantage competitors. (Br. of Dept. of Defense at 10-11.) Additionally, the Department of Defense is in favor of requiring South Central Bell to impute access charges in its intra-LATA toll rates. It stated that "imputation is necessary to prevent South Central Bell from obtaining an unfair price advantage." (Br. of Dept. of Defense at 11.)

11. Commission Staff

The Staff submitted prefiled testimony on both the intra-LATA competition and access issues. The Staff recommends that the Commission open the LATA to competition by both resellers and facilities based carriers on a "10XXX" basis. That is, "1+" and "0+" dialing would remain the exclusive province of the local exchange companies. Staff opposes the suggestion of LDDS that intra-LATA competition be only "retail" and further disagrees with the suggestion that the IXC's be prohibited from

constructing new facilities. Also, because the Staff determined that there would be no significant impact on LEC revenues from this type of competition, it asserted there was no need to "re-balance" rates as suggested by South Central Bell. The Staff opposes South Central Bell's recommendation to adopt a mandatory 40 mile local calling area in which traffic from all potential competitors would be blocked.

The Commission Staff takes the following positions on the access charge issues. First, the Commission has already ordered intrastate access charges to be reduced to interstate levels. Staff supports this position. Second, in the event that the Commission authorizes additional intra-LATA competition, the LECs should be required to include in their intra-LATA toll prices the same access charge assessed to the IXCs and resellers. This will ensure that competition will be fostered on an equitable basis and also prevent the LECs from utilizing their monopoly power to create a price squeeze situation. Finally, the Staff does support a reduction in the disparities in access charges levied by the various LECs. However, it does not believe that absolute equality is required. Staff therefore recommends the use of a high cost fund which would be made available to truly "high cost" LECs. To be eligible to participate in the fund the following criteria would have to be met: (1) the LEC's access charges will have to be no lower than South Central Bell's access charges or the company's own interstate charges, whichever are higher; (2) the local flat rate service charge can be no

lower than South Central Bell's charge in comparably sized exchanges; and (3) the company will have to demonstrate that it is a high cost company in need of support.

E. Findings

All parties are in general agreement that competition for telecommunications services within the LATA already exists, and, particularly given the rapid advancements in technology, will continue to expand. South Central Bell's witness, Mr. John Ebbert, described the situation as follows:

I think it is the currents of history we are seeing today. Competition is evolving. I can't stop that. I'm not sure I'd want to stop it, but I couldn't if I wanted to. I don't think that the Commission can effectively stop competition in the long-run either. I think technology is going to drive that into being in the marketplace, and it is appropriate.

I think that there are opportunities that should be allowed customers, given fair and equitable treatment for all participants in the marketplace.

(Tr. 7/23/91, Test. J. Ebbert at 60)

Mr. Ebbert further stated:

We've come to this docket advocating a transition to a competitive marketplace. We see that is going to happen. Every indication in the marketplace says that is what is going to transcend the current environment we have today.

(Id. at 53)

Dr. Kahn, the Staff's expert consultant, expressed similar sentiments.

There is no dispute among the parties in this proceeding that competition in the market for intra-LATA toll services exists, and even if the Commission wanted, it would be most unlikely that the Commission could reverse that situation. Consequently, the issue before the Commission right now

is exactly what degree of competition should be allowed, and if additional competition is permitted, how fast should it be permitted to enter, how to structure the entry of it and how it can be done such that it is in the public interest.

(Tr. 7/23/91, Test. M. Kahn at 134-35).

1. Benefits of competition

The participants in this Docket are in agreement that intra-LATA competition would provide benefits to telecommunications users. For example, AT&T contends that increased intra-LATA competition will provide greater choices to Louisiana subscribers, encourage price reductions, help stimulate the development of new service offerings and also encourage the rapid deployment of new services within the marketplace. (Pre-filed Dir. Test. of W. Ellison, p. 6; Pre-filed Dir. Test. of D. Ballard, p. 4; Pre-filed Dir. Test. of W. Culbertson p. 3). In addition to the foregoing benefits, MCI believes that expanded intra-LATA competition will also provide incentives for carriers to serve additional markets and incentives for those firms to become more efficient. Furthermore, such competition will increase the number of firms investing in the telecommunications infrastructure in Louisiana, providing a boost to long term economic development in the State. (Br. of MCI at 1).

Sprint's witness identified the benefits of increased intra-LATA competition as reductions in toll prices, increases in product choice and variety, increased innovation and the introduction of new products and technology. (Pre-filed Dir. Test. of B. Albery at 5). Dr. Kahn, the Commission Staff's

expert witness, stated that competition should provide a stimulus for improvements in service offerings, efficiency and pricing. Firms may seek out market segments going unserved or underserved. Less costly methods of production should be developed. Dr. Kahn stated that:

[W]hile competitive firms seek methods to cut costs in an attempt to improve profits, competition forces many of these cost saving to be passed through to customers. Competition, if successfully implanted, will result not only in lower costs, but also in lower prices.

(Pre-filed Dir. Test. of M. Kahn at 10).

Finally, even South Central Bell recognizes the benefits that should be realized from competition:

Generally speaking . . . economic theory indicates that competition, with the introduction of additional service providers, generally is accompanied by an increase in the choices of service offerings as well as a reduction in rates for competing services. Coincident with the creation of an increasingly competitive intra-LATA market, all LECs' rates for local, toll and carrier access services will be driven toward the cost of providing those services. In addition, competition will stimulate all providers to minimize cost. The combined impact of these benefits should be to bring telephone consumers more choices at a lower total price.

(Ex. 1, Pre-filed Dir. Test. of J. Ebbert at 8).

Further, South Central Bell witness Dr. Lewis Perl testified that if the Commission orders the rate rebalancing and other relief sought by the company, intra-LATA competition may produce benefits to ratepayers, including:

- 1) rates being driven toward incremental cost;

- 2) stimulation of producer operating efficiency;
- 3) reduction of regulatory costs; and
- 4) reduction of risk to consumers of incorrect or inappropriate investment decisions.

(Pre-filed Dir. Test. L. Perl at 22-24; Br. of South Central Bell at 2.)

The experiences in the interstate and inter-LATA market also demonstrate the likely benefits which should accrue as a result of increased competition within the LATA. Since the introduction of meaningful competition in the interstate and inter-LATA markets, the industry has witnessed an increase in service offerings, and the availability of those offerings to subscribers, the introduction of innovative new products, and a decline in both the cost and price of services.

The Commission believes that an expansion of intra-LATA competition is in the public interest and will likely provide benefits to ratepayers. Two questions still remain to be answered. First, what form will this competition take, and second, what will be the likely impact of such competition on the level of revenues (and therefore contribution) that toll traffic currently provides to the LECs. Depending upon the projected impact on contribution, we have the option of implementing some of the rebalancing adjustments suggested by South Central Bell or providing a mechanism to track contribution loss and compensate the LECs if that loss exceeds a certain level.

2. Level of Intra-LATA competition

Having determined that expanded intra-LATA competition provides an opportunity to provide significant benefits to rate-payers, the Commission must determine exactly how extensive that competition will be. Four basic approaches were sponsored by various parties in this Docket.

a) "Retail Competition"

One reseller, LDDS, has proposed that the current authority which permits resellers to compete with the LECs for intra-LATA toll traffic should be continued. However, if the Commission determines that the facilities based carriers should be permitted to compete for the intra-LATA toll traffic, LDDS recommends that only "retail" competition be permitted. Under such an arrangement, any calls handled by the facilities based IXCs would have to be carried over the facilities of the local exchange companies. LDDS believes that this approach would cause the least potential harm to the revenues of the LECs. In addition, it asserts that if the IXCs are permitted to utilize their own transmission facilities the possibility exists of having inefficient duplication of transmission facilities and/or stranded LEC transmission plant. LDDS is also opposed to the IXCs constructing facilities which could be used to compete with the LECs.

LDDS is the only party to this proceeding that has advocated having all intra-LATA traffic carried over the LEC transmission facilities. When questioned, the LDDS witness could